



DSP Explorer Series

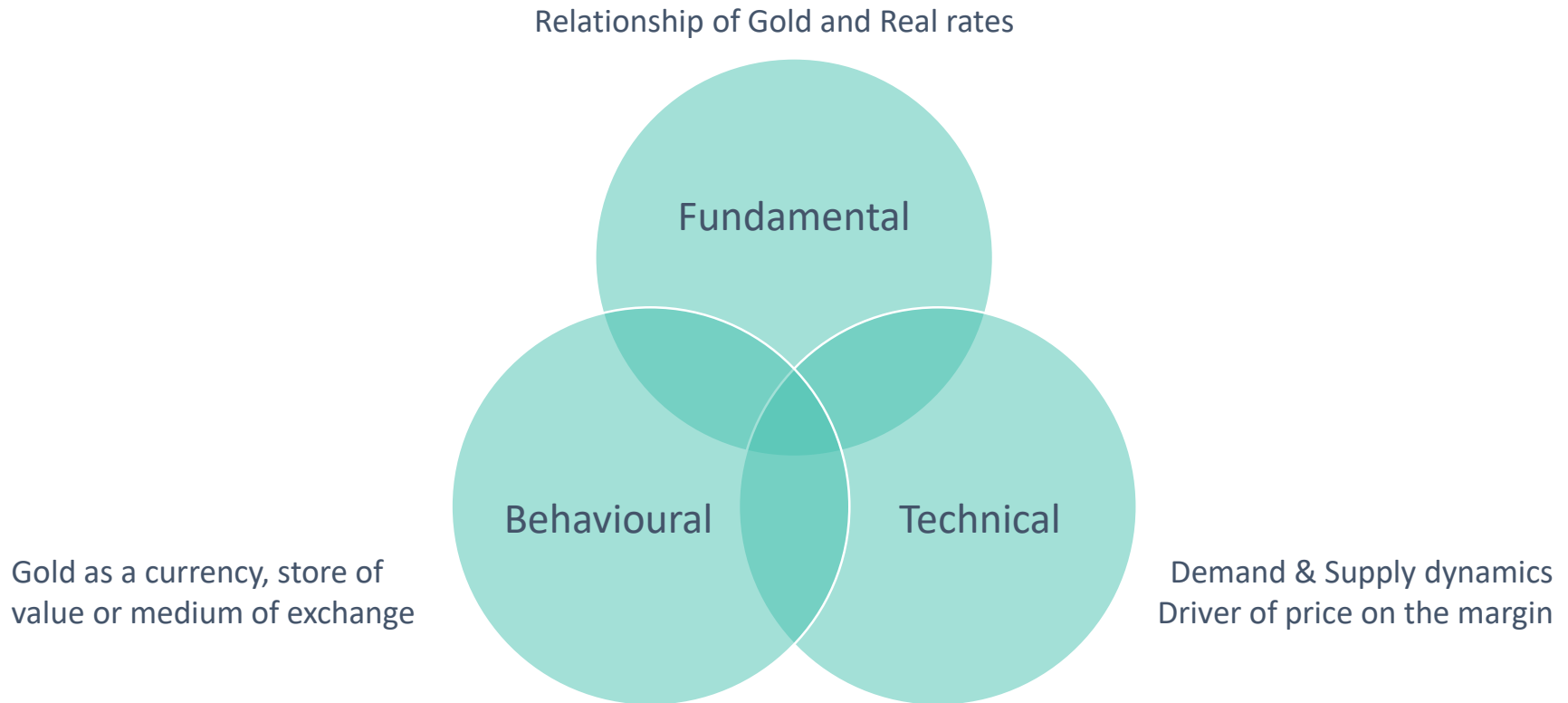


| People | Processes | Performance |

EXPLORING an investment framework for Gold

April 2020

Factors in the investment framework



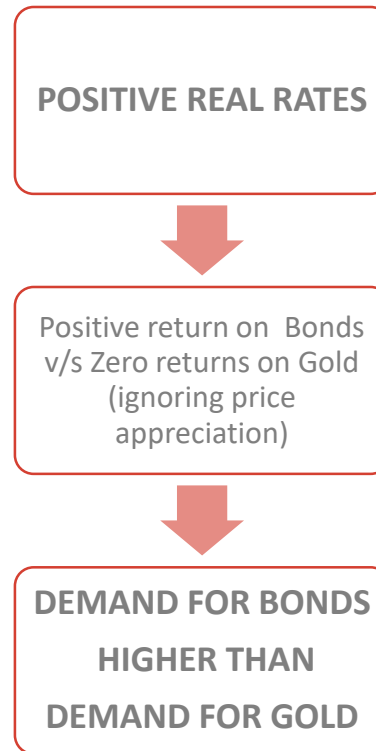
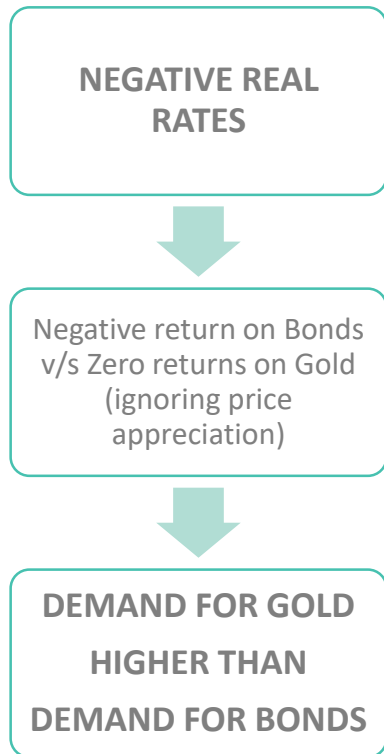
Interplay of these factors drives long term trend and shorter term cycles and counter-cycles

Fundamental Relationship between Real rates & Gold

GOLD
(Non coupon bearing asset)



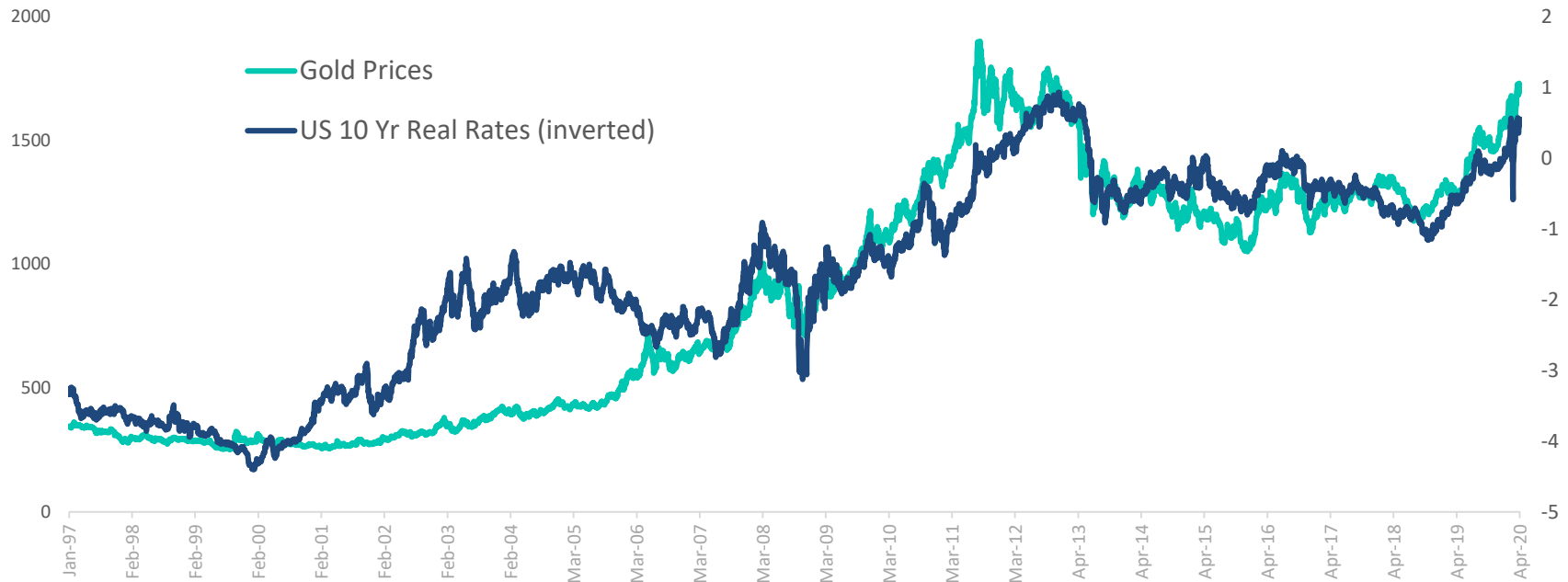
REAL RATES = NOMINAL BOND YIELD – INFLATION
(The real returns made by a bond investor)



Gold outperforms when Real rates are negative

Graphical representation - Real rates v/s Gold

HISTORICALLY **~90% NEGATIVE CORRELATION** BETWEEN US 10 YEAR REAL RATES AND GOLD PRICES



Source: Bloomberg; Data as on April 30, 2020. The figures shown relate to past performance. **Past performance may not sustain in future and should not be used as a basis for comparison with other investments.** Index performance is shown for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Gold gives a positive carry in a negative real rate environment

Scenarios for negative and positive real rates

WHEN DO WE GET NEGATIVE REAL RATES?

DURING INFLATIONARY SCENARIOS

Inflation (accelerating) > Bond yields

=> Negative Real rates

IN A NEGATIVE RATES ENVIRONMENT

Mildly positive Inflation expectations

v/s

Zero / Neg. Bond yields

=> Real rates trend downwards

WHEN DO WE GET POSITIVE REAL RATES?

DURING DEFLATIONARY SCENARIOS

Inflation fall > Fall in Bond yields

=> Positive Real rates

IN A NEGATIVE RATES ENVIRONMENT

Sharply falling Inflation expectations

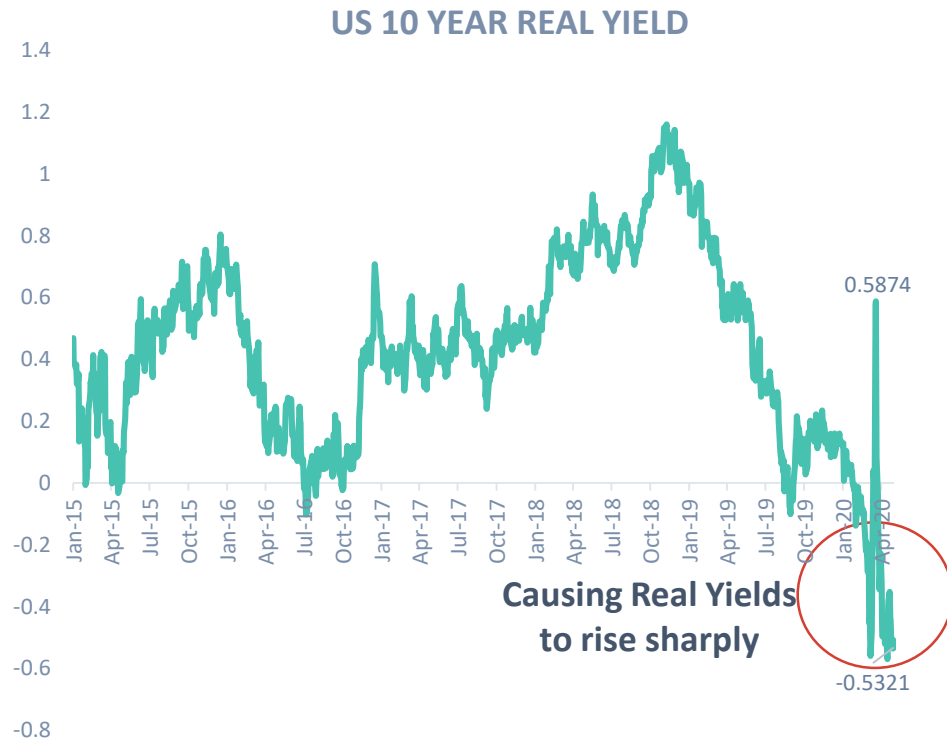
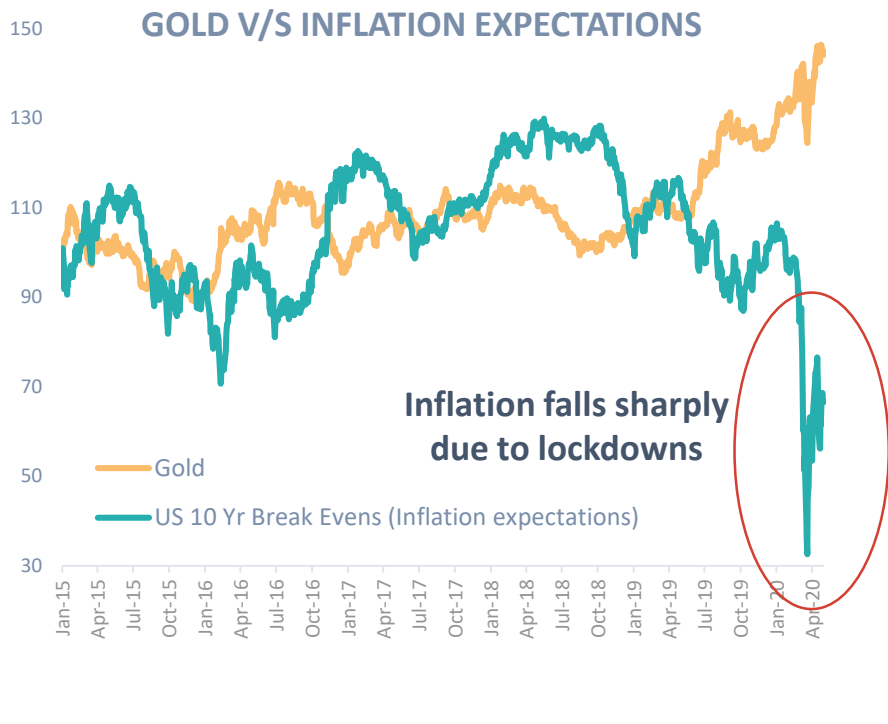
v/s

Zero / Neg. Bond yields

=> Real rates trend upwards

Trends in inflation expectations influence Real rates

Implications of Covid-19 induced shutdowns on Real rates

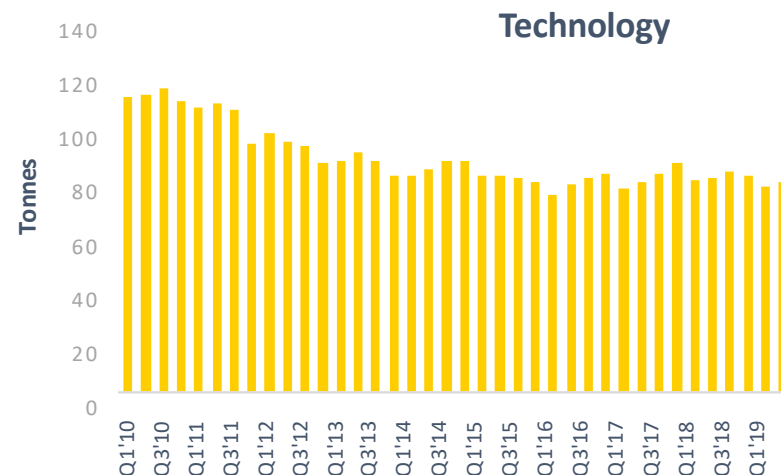
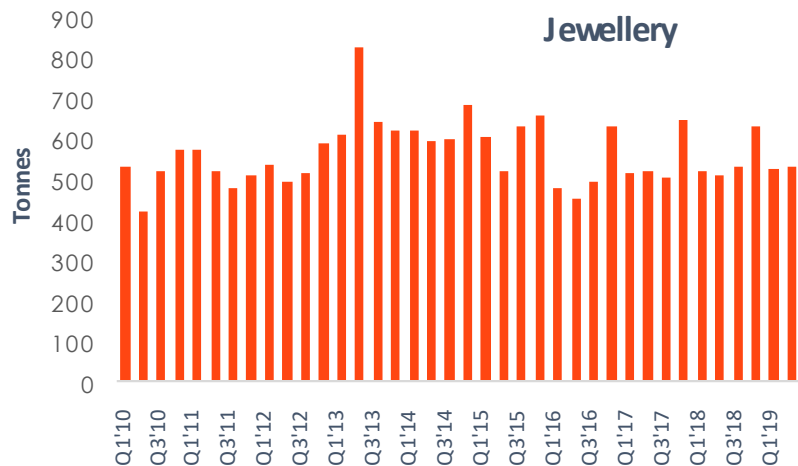


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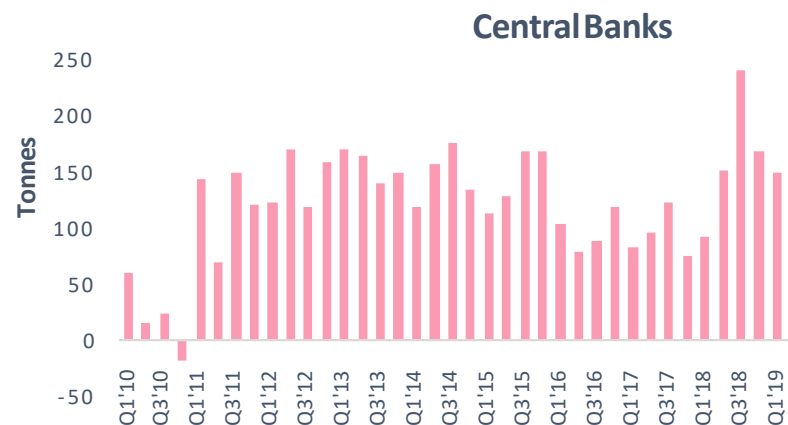
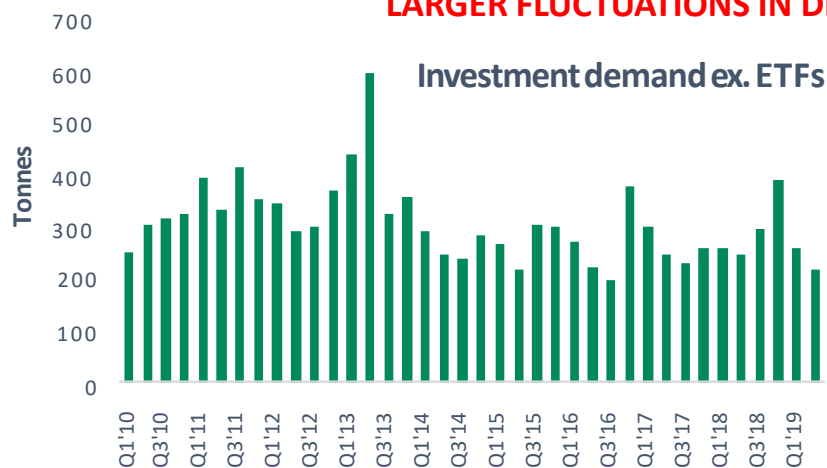
Collapsing inflation expectations => Real rates trend sharply higher

Technical relationship – Demand side for Gold

RELATIVELY STABLE PHYSICAL DEMAND FOR INDUSTRIAL END USE



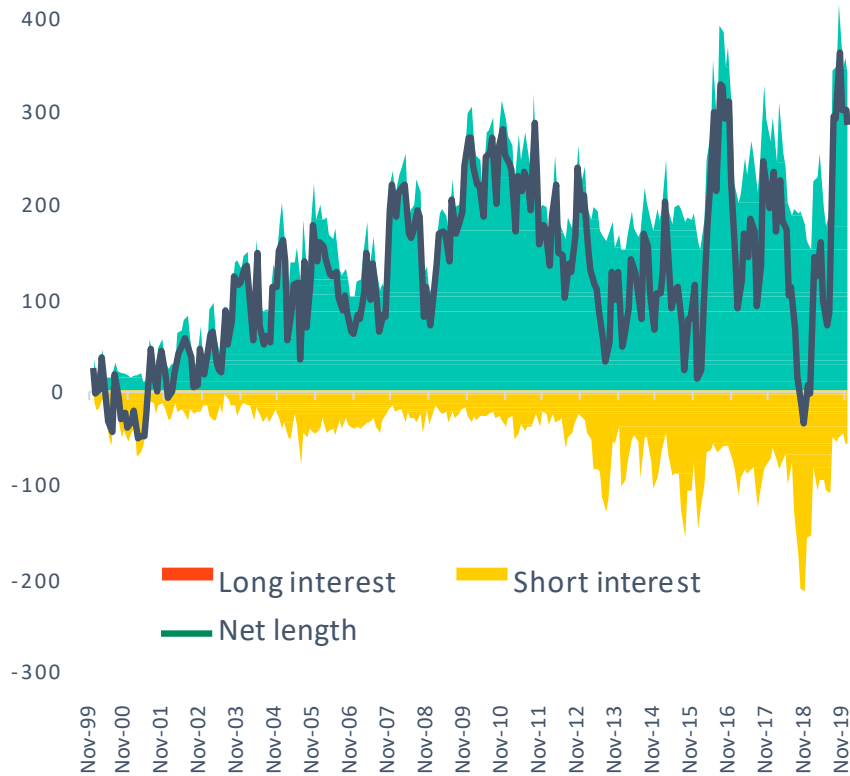
LARGER FLUCTUATIONS IN DEMAND FOR INVESTMENT PURPOSES



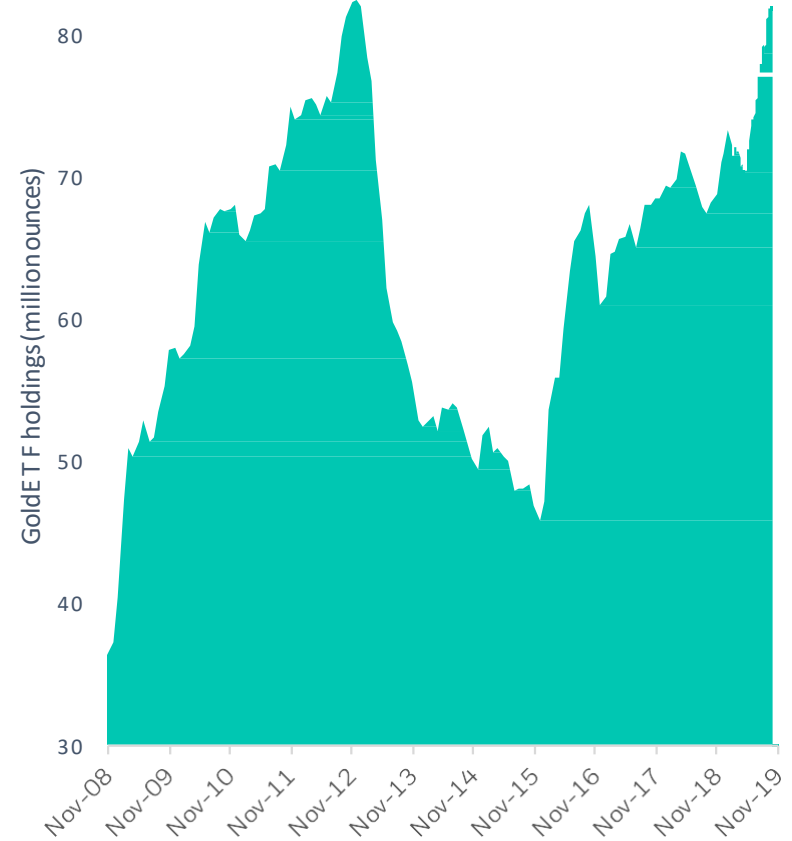
Investment demand for Gold causes changes on the margin

Investment demand: the swing factor for the gold price

POSTIONING OF MKT. PARTICIPANTS IN GOLD FUTURES



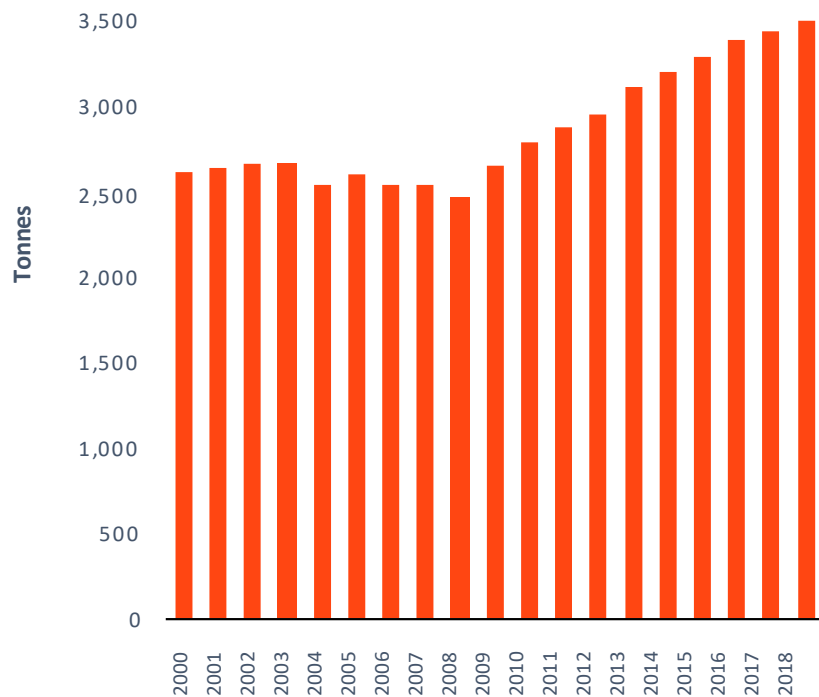
PHYSICAL BACKED ETF HOLDINGS



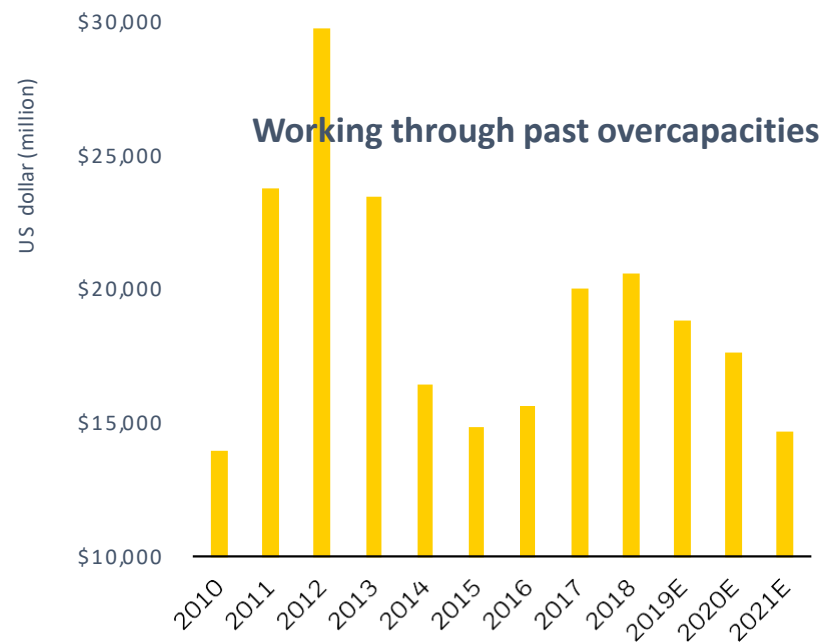
Activity in Gold Futures shows sharp fluctuations

Physical supply

MINE PRODUCTION



CAPITAL SPENDING OF GOLD COMPANIES



Production increase without capital spending => future supply constraints

Implications of Covid-19 induced shutdowns on demand / supply

DEMAND SIDE

Buyers in the Futures may insist on physical delivery to ensure against potential defaults

Central bank demand maybe affected due to lower reserve surplus caused by

- fall in exports
- potential debt servicing requirements

**POTENTIAL DISCONNECT BETWEEN
FUTURES & PHYSICAL MARKET**

SUPPLY SIDE

Lockdown may impact availability of workforce for various activities

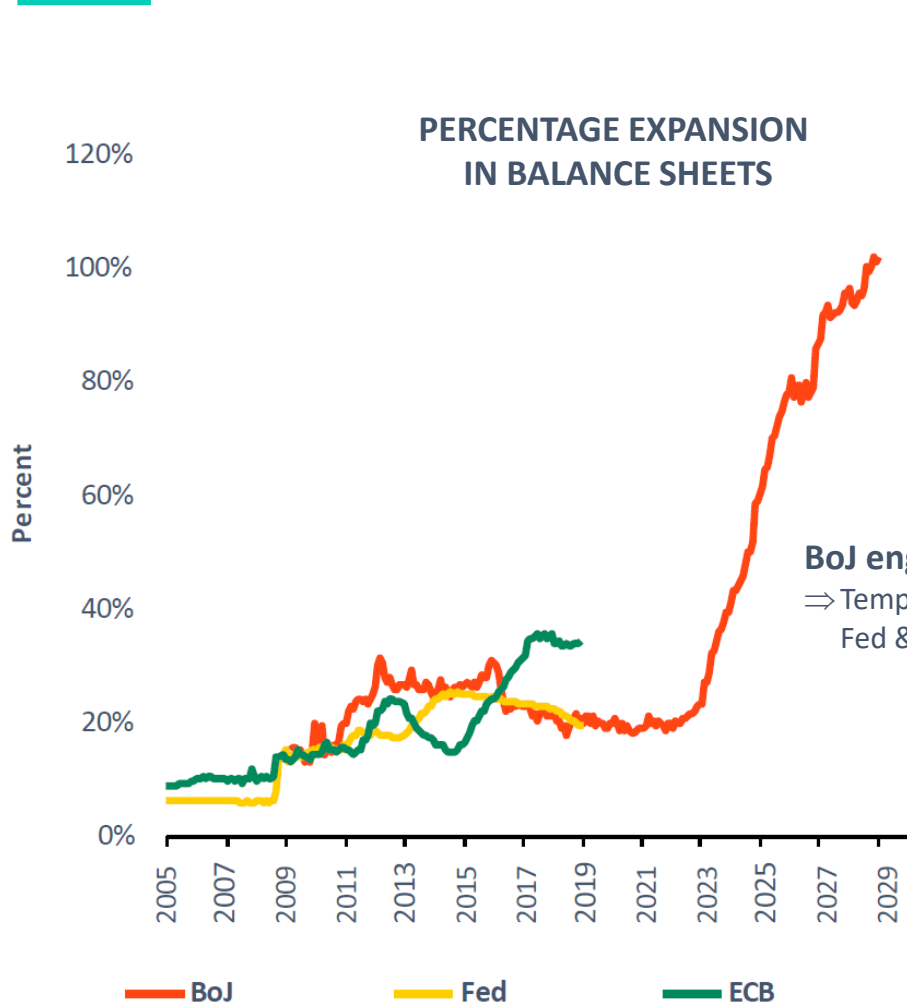
- Mining of the ore
- Refining and production
- Transportation of cargo
- Loading and unloading of cargo

POTENTIAL FOR SUPPLY SHORTAGES

Potential supply shortages

=> Potential dislocation between Futures & Physical markets

Central bank Balance Sheet expansion



FEDERAL RESERVE (FED)
 V/S
EUROPEAN CENTRAL BANK (ECB)
 V/S
BANK OF JAPAN (BOJ)
(Projected 10 years forward)

BoJ engaged in QE since late 1980s
 ⇒ Template for potential FUTURE Balance sheet expansion by Fed & ECB to counter potential debt deflation

Source: Federal Reserve St. Louis, Incrementum AG, July 2019.

Size of current & future balance sheet expansions

⇒ fear of devaluation in fiat currency

Relationship between FED balance sheet expansion & Dollar Index

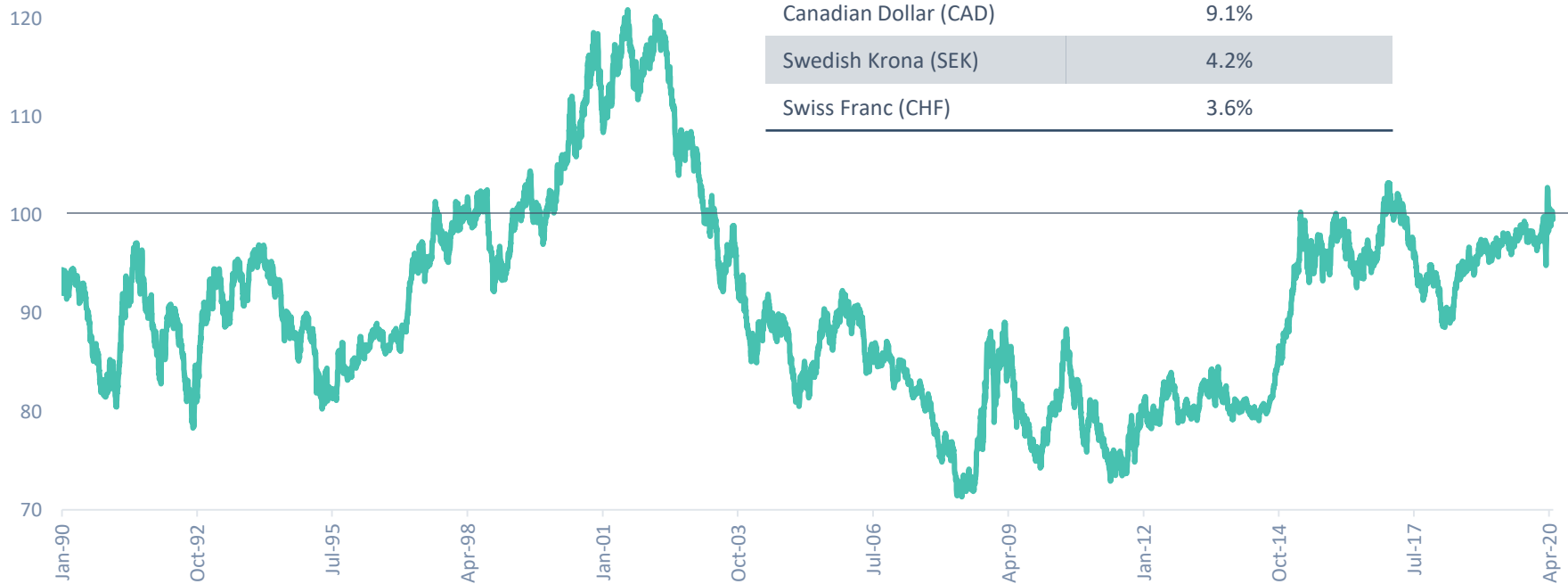


FED Balance sheet expansion post GFC accompanied by appreciating USD

=> Fear of devaluation not proven by actual data

Long term trend in the US Dollar Index

DOLLAR INDEX (DXY)



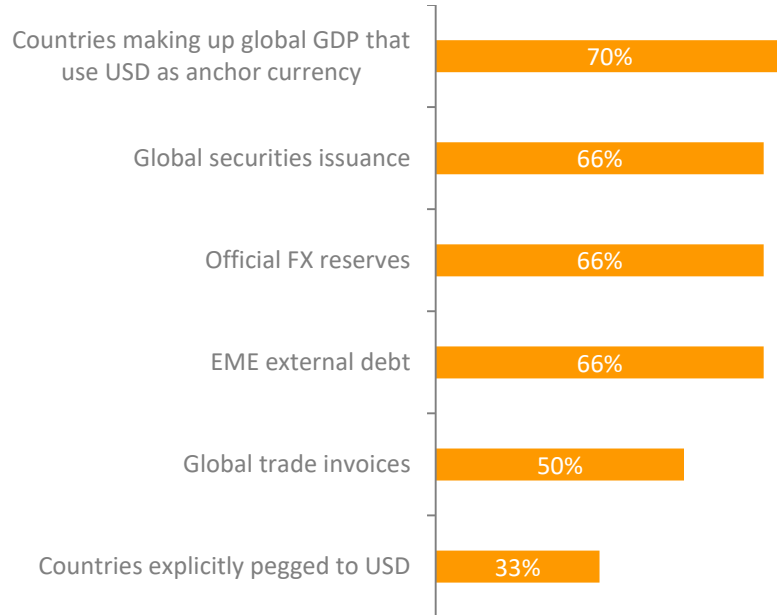
CURRENCY	% WGT IN INDEX (DXY)
Euro (EUR)	57.6%
Japanese Yen (JPY)	13.6%
Pound Sterling (GBP)	11.9%
Canadian Dollar (CAD)	9.1%
Swedish Krona (SEK)	4.2%
Swiss Franc (CHF)	3.6%

Data as on 30TH April 2020, Source: Bloomberg. The figure mentioned for performance of the index should not construe as returns/performance of the Scheme. It is not possible to invest directly in an index.

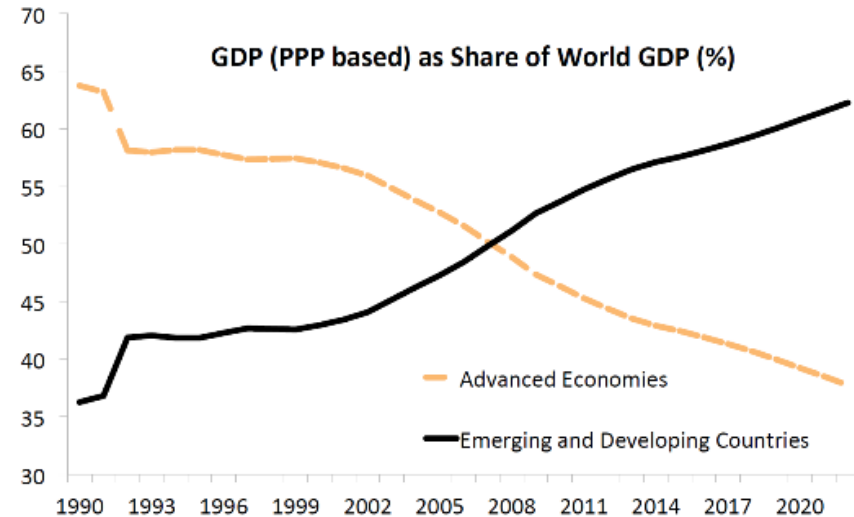
US Dollar Index shows potential for further appreciation

Imbalance in the current US Dollar based financial system

SHARE OF US\$ IN GLOBAL FINANCIAL SYSTEM



DM V/S EM SHARE IN GLOBAL GDP



Source: Statista.com, as 31st Mar 2020

Share of US in Global GDP in 2019 = 15.1% ↔ USD is a much higher share of global financial system

Source: BlackRock, Bloomberg, and Bank of England, as of 31 March 2020.

Global demand for USD negating impact of FED balance sheet expansion

Implications of Covid-19 on the alternative currency debate

NEAR TO MID TERM (1 – 3 years)

Covid-19 has caused an economic slowdown which may become a **severe recession or depression** depending on the length of the global lockdowns

Given existing high levels of debt, this creates a higher possibility of **Debt deflation** as most of the money used to service debt

HIGH DEMAND FOR US DOLLARS TO MEET CASH REQUIREMENTS & DEBT REPAYMENTS

⇒ **USD LIKELY TO BE FAVORED OVER GOLD**

LONG TERM (> 3 years)

Strengthening dollar may **create stress for other currencies** starting from weakest EM currencies and proceeding to strongest DM currencies over time

Sovereigns already buying corporate debt and transferring risk onto themselves and creating **potential for currency collapses**

STRONG US DOLLAR POTENTIALLY CREATES CONSENSUS FOR CHANGE OF RESERVE

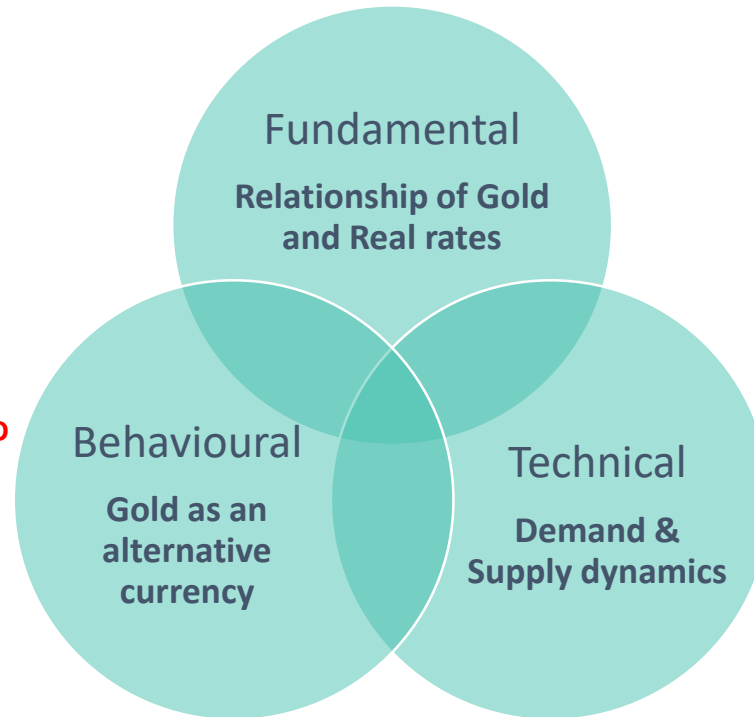
⇒ **GOLD LIKELY TO BE FAVORED OVER USD**

USD may strengthen near term & reduce fear of reserve currency devaluation

Creates conditions for future change of USD reserve system

Summarizing the conclusions of the investment framework

**COLLAPSING INFLATION = RISING REAL RATES
=> NEGATIVE FOR GOLD PRICES**



**SEVERE ECONOMIC SLOWDOWN
=> LIKELY USD STRENGTH V/S GOLD**

- STRONG USD IN LONG TERM**
- => CONSENSUS FOR RESERVE CURRENCY CHANGE**
- => DEMAND FOR GOLD V/S USD**

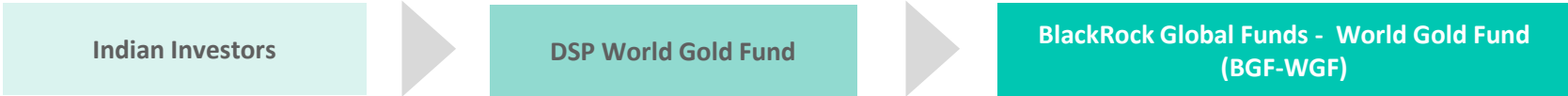
**LOCKDOWN => SUPPLY SHORTAGES

=> POTENTIAL DISLOCATION BETWEEN FUTURES & PHYSICAL MKTS OF GOLD AS FUTURES BUYERS INSIST ON DELIVERY**

**Fundamental imbalances in USD system => long term bull case for Gold
Covid-19 effects => may cause near to mid term corrections**

DSP World Gold Fund

PRODUCT STRUCTURE



WHERE DOES THE UNDERLYING FUND INVEST?

> 70% of its assets in the equity securities of companies whose predominant economic activity is gold-mining

KEY DRIVERS

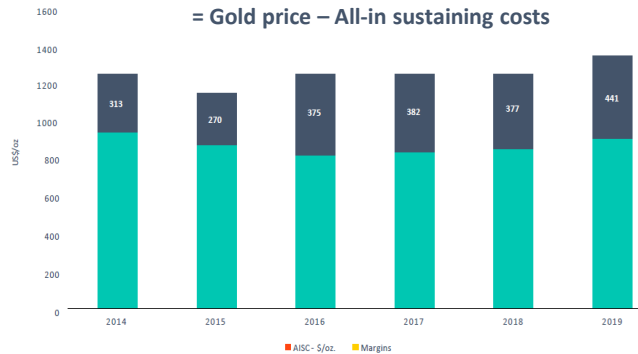
Gold prices are the key drivers of Gold mining companies as they determine the margins

Gold Price Rises With Total Amount of Debt Yielding Less Than Zero Worldwide



Source: Bloomberg. US Global Investors; Data as on November 30, 2019.

Margins for Gold mining companies = Gold price – All-in sustaining costs

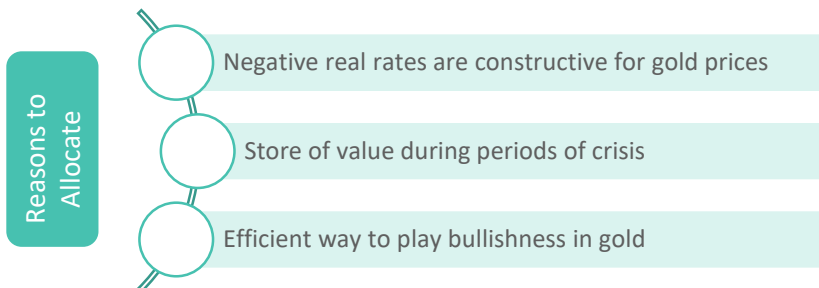


Source: BlackRock; Data as on November 30, 2019.

1 year rolling beta (weekly returns) of FTSE Gold Mines index and gold prices



Source: BlackRock; Data as on November 30, 2019.



DSP World Gold Fund

UNDERLYING FUND PORTFOLIO DETAILS

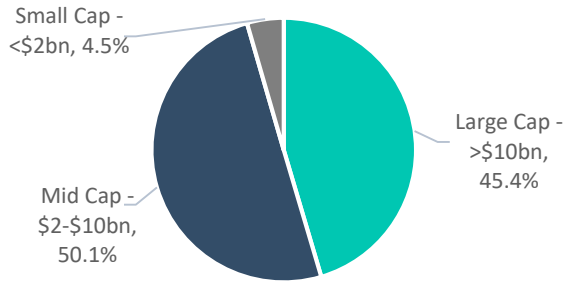
Top 10 holdings

NEWMONT CORPORATION	10.2%
BARRICK GOLD CORP	10.1%
AGNICO EAGLE MINES LTD	5.5%
NORTHERN STAR RESOURCES...	5.2%
WHEATON PRECIOUS METALS...	4.8%
FRANCO NEVADA CORP	4.7%
NEWCREST MINING LTD	4.6%
B2GOLD CORP	4.0%
ANGLOGOLD ASHANTI LTD	3.9%
POLYUS PAO	3.7%

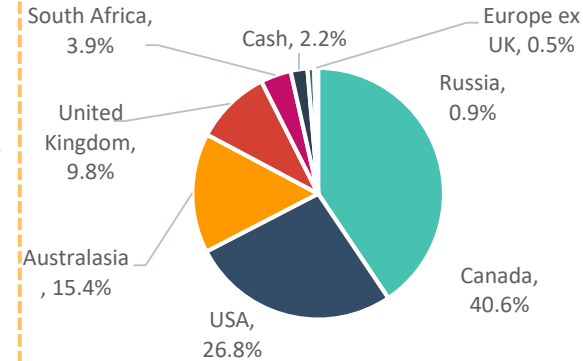
Sector wise allocation (%)

Sector	Fund	Benchmark	Net
Gold	86.3%	98.3%	-11.9%
Silver	8.3%	1.7%	6.6%
Cash	2.2%	0.0%	2.2%
Platinum Group Metals	1.4%	0.0%	1.4%
Diversified	1.0%	0.0%	1.0%
Copper	0.8%	0.0%	0.8%

Market Capitalization



Region wise asset allocation



PERFORMANCE DATA

YEAR	DSP World Gold Fund	FTSE Gold Mine	Alpha
2007	31.81%	12.06%	19.76%
2008	-19.4%	-0.3%	-19.1%
2009	41.5%	24.7%	16.73%
2010	29.0%	24.8%	4.2%
2011	-2.6%	0.9%	-3.5%
2012	-5.8%	-11.3%	5.45%
2013	-41.5%	-46.1%	4.58%
2014	-3.0%	-12.3%	9.24%
2015	-18.5%	-16.7%	-1.8%
2016	52.7%	64.9%	-12.3%
2017	-4.0%	3.5%	-7.5%
2018	-10.7%	-1.8%	-8.8%
2019	35.1%	45.8%	-10.7%
YTD 2020	-13.6%	-11.3%	-2.3%

No of times positive returns by the Fund

36%

No of times O/P benchmark

43%

Period	DSP World Gold Fund	FTSE Gold Mine
1 year	8.68%	21.84%
3 Years	0.06%	8.18%
5 Years	5.63%	12.70%
Since Inception*	1.85%	2.31%



Source: MFIE, BlackRock. *Inception Date: September 14, 2007 ; Portfolio data as on 28 February 2020; Performance data as on 31 Mar 2020; Scheme benchmark = FTSE Gold Mine ; . For performance in SEBI Prescribed format of DSP World Gold Fund click [here](#). . Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments. The figure mentioned for performance of the index should not construe as returns/performance of the Scheme. It is not possible to invest directly in an index.

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We have included statements / opinions / recommendations in this document, which contain words, or phrases such as “will”, “expect”, “should”, “believe” and similar expressions or variations of such expressions, that are “forward looking statements”. Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc.

The distribution of this material in certain jurisdictions may be restricted or subject to registration requirements and, accordingly, persons who come into possession of this material in such jurisdictions are required to inform themselves about, and to observe, any such restrictions.

Asset Allocation

1. Units of BGF – WGF# or other similar overseas mutual fund scheme(s): 95% to 100%
 2. Money market securities and/ or units of money market/liquid schemes of DSP Mutual Fund: 0% to 5%
- #in the shares of BGF – WGF, an Undertaking for Collective Investment in Transferable Securities (UCITS) III fund.

The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any recommendation/opinion of the same and the Underlying Fund may or may not have any future position in these sector(s)/stock(s)/issuer(s). The portfolio of the Underlying Fund is subject to changes within the provisions of its Offer document. **Past performance may or not sustain in future and should not be used as a basis for comparison with other investments.**

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Investors are advised to consult their own legal, tax and financial advisors to determine possible tax, legal and other financial implication or consequence of subscribing to the units of the DSP Mutual Fund (“Fund”).

There is no guarantee of returns/ income generation in the Scheme. Further, there is no assurance of any capital protection/ capital guarantee to the investors in the Scheme.

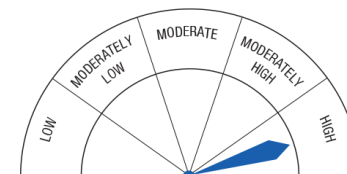
Mutual Fund investments are subject to market risks, read all scheme related documents carefully

Scheme	Product Suitability	Riskometer
<p>DSP World Gold Fund (An open ended fund of fund scheme investing in BlackRock Global Funds – World Gold Fund (BGF – WGF))</p>	<p>This Scheme is suitable for investors who are seeking* :</p> <ul style="list-style-type: none"> ▪ Long-term capital growth ▪ Investment in units of overseas funds which invest primarily in equity and equity related securities of gold mining Companies 	 <p>Investors understand that their principal will be at high risk</p>

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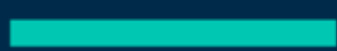
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DSP



INVESTMENT MANAGERS